

## **CORPORATE GOVERNANCE AND DISCLOSURE PRACTICES IN INDIA: AN EVALUATIVE STUDY OF MODEST INFRASTRUCTURE PVT. LTD., BHAVNAGAR**

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### **ABSTRACT**

In India categorized on the basis of control, liability and incorporation, the corporate governance become highly important. It is easy to tap the public companies and public sector companies through mandatory disclosures of their accounts but private players still remained untouched as many privileges' are assigned to them under Indian Companies Act 1956. Corporate governance is to monitor corporate companies and public institution. Government monitors companies in several ways through corporate governance. Through this government witness interest of stake holders in companies and at the same time ensures accountability of these companies. Corporate governance is basically a system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The board's actions are subject to laws, regulations, and the shareholders in general meeting Corporate governance is therefore about what the board of a company does and how it sets the values of the company, but is distinct from the operational management of the company by fulltime. Corporate governance is mainly areas of Infrastructure and corporate accountability; Composition of Board of directors; Corporate social responsibility

**KEYWORDS:** Corporate Governance, Private Companies, Disclosure

### **INTRODUCTION**

In simple words meaning of corporate governance is to monitor corporate companies and public institution. Government monitors companies in several ways through corporate governance. Through this government witness interest of stake holders in companies and at the same time ensures accountability of these companies. In different countries different federal agencies do this work but in India it is done by SEBI. Failure of may chit fund companies, even quite established and award winning companies of IT sector in due diligence and acid testing alarmed the government to be more careful. So the need for corporate governance has become a key to stop immediate declaration of bankruptcy..

In the field of management, the study of governance generally deals with decision-making by boards of directors, chief executive officers and senior managers. The corporate governance literature has generated important insights regarding incentive alignment, risk taking, and coordination challenges. Emerging trends, highlighted in the issue of corporate governance as it raises new questions regarding managerial roles, organizational contexts, internal and social processes, and changes in governance over time. It tempts to rethink about the approach of governance by stakeholder's engagement, the implications of big data, social impact, global dimensions, and comparative analysis of governance. A broadened conceptualization of governance may also deal with the dynamics of organizational arrangements, including the co-creation of governance norms varying from organisation to organisation.

**Why Corporate Governance-** Drowning of companies' one hand there is the investors who will lose their money on the other hand the people lost their employment too. That too is without any personal or professional default. The code of conduct and rules are developed in such a way that share market and other markets of origin are also directly affected by these failures. Some norms of market are such that it has its consensus on global level.

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' prime role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance Structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business, and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations, and the shareholders in general meeting Corporate governance is therefore about what the board of a company does and how it sets the values of the company, but is distinct from the operational management of the company by fulltime Executives.



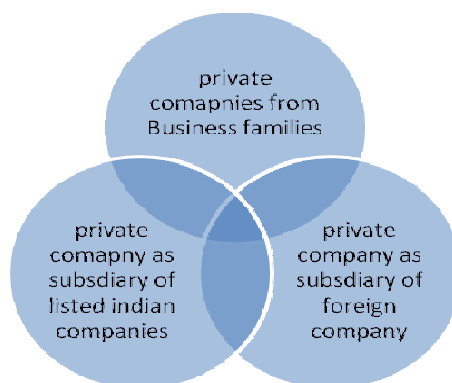
**Figure 1**

In general corporate governance is mainly areas of concern are-

- Governance Strategy
- External and independent auditing
- Infrastructure and corporate accountability
- Transparency in Financial Reporting
- Composition of Board of directors
- To provide relevant information
- Ownership structure
- Corporate social responsibility

### **Why Modest?**

Corporate governance in private ltd. Company Is an often –ignored topic as it is not mandatory by law. The companies Act 1956, and SEBI agreement of listing focus' on corporate governance aspects of public listed companies , so generally the reason to Exclude private limited companies is that they do not have numerous number of share holders as majority of share holders are family members or close relatives, so the risk is minimal. But I dare to differ because In India 90% of companies are either unlisted public companies or private limited companies. Basically private limited companies have 3 groups-



**Figure 2: Types of Private Companies in India**

## INTRODUCTION OF SHIPPING INDUSTRY IN INDIA

Shipping industry is a heavy investment business as it needs big infrastructure to support. Majorly there are 18 listed companies in India who are in shipping business (construction or repairing) with 1 % in total share in world shipping industry. Major players in world shipping industry are Korea with 34%, Japan 28 %, China 18 % and Turkey 8 %. Surprisingly Srilanka being geographically so small have a noticeable share in World shipping industry. Shipping Business is highly profitable as well as risky in nature.

Modest Infrastructure Ltd is a premier shipbuilding and ship repairs shipyard based in Bhavnagar, Gujarat, with its registered and corporate offices in Mumbai. The yard spread over an area of about 67000 sq. mts is well connected to Bhavnagar airport and Bhavnagar- Ahmadabad highway, giving it considerable logistical advantage. The yard has excellent facilities and competent work force to deliver high quality of ships and ship repairs services. The shipyard is certified for ISO 9001, 2008 by the Indian Registry of Quality Systems.

The Shipyard has the capacity to build medium sized vessels up to 6000 dwt and has so far delivered various types of vessels like

- product tankers,
- oil tankers,
- offshore survey vessels,
- Cement carriers etc.( both for international and domestic clients including Indian Navy)

The company has its customers around the world domestic as well as abroad. Delivered more than 24 ships since 2007 to till date. Their inland prime customers are Indian Navy and Shipping Corporation of India. Recently delivered helping hand to “Vikramaditya ” along with 7 other ships of 600-700 tone capacity to Indian navy. Whereas for Shipping Corporation the number is 2. In abroad they take deal majorly with-

- Turkey
- UK
- United Kingdom

- U. A. E
- Mauritius
- Italy

Modest Infrastructure Ltd, is a professionally Managed company with its Management having the requisite experience and capability to handle any kind of challenges in the present day scenario. It has a capital worth of Rs. 180 crores.

Corporate governance in Modest- Generally traditionally companies did not consider these issues and responsibility for solving such problems has been ignored.

### Testing of Corporate Governance at Modest Infrastructure Pvt. Ltd

I tried to check corporate governance at modest to get a fair idea that a company which is appreciated by news papers and in vibrant submit couple of times, is really practicing well or not?

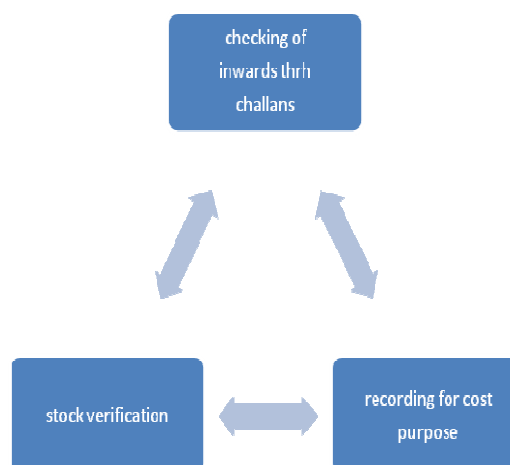
I took some parameters to check practices of corporate governance. Here are tools and results.

### Disclosures of Accounting Policies

Modest Bhavnagar works on branch accounting as it is the manufacturing unit of Modest Ltd, having head offices in Bombay and Goa. They maintain all the records related to cash, purchase, purchase order etc on a daily basis.

### Valuations of Inventories

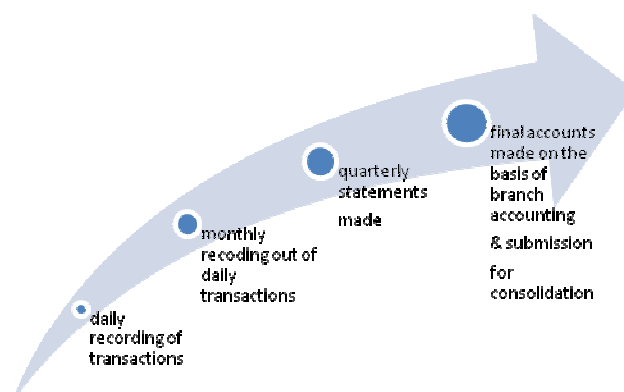
Modest have ERP system of valuation of inventories. Any kind of purchase has direct notification through ERP and it is recorded directly. In fact at the time of issue of materiel for making ships is also cross verified so there is no chance of theft or manipulation of raw material.



**Figure 3**

### Contingencies and Events Occurring After the Balance Sheet Date

They follow the accounting system in the following manner-



**Figure 4**

These reports are kept confidential as the treatment of contingency is dependent on type of contingency.

### **Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies**

There is no significant change in accounting policies since modest is established. Just for betterment of business and to maintain transparency in accounting system they introduced ERP instead of Tally.

### **Depreciation Accounting**

Modest follows norm of Indian ship industry in this regards and charge depreciation as per income tax act 1961 and Indian shipping act. Till date they face no penalty in this regard.

### **Revenue Recognition**

Price and revenue fixations are reserved with head office where every contract is review before approval in a board of directors meeting. No singular person can decide approval aor rejection of contracts regarding manufacturing of vessels.

### **Accounting for Fixed Assets**



**Figure 5: Decision Making at Modest**

Modest fully apply shipping act norms for the accounting of its fixed assets like building, machinery. Furniture and fixtures, tools etc., general procedure is that requirements will be sent to the head office first, which will be reviewed

by Purchases, Accounts & finance Head at the Head office. Later same will be discussed with GM , operations at local level. After all this process the Fixed Assets are purchased further.

### **The Effects of Changes in Foreign Exchange Rates**

This is a revised practice since 2003. Modest infrastructure Pvt. Ltd is a very ethical company. They never charge their customers for the revised rates of contracts due to changes in foreign exchange rate. A year before when dollar reached nearly 70 rs, they furnished their old contracts without delay.

### **Borrowing Costs**

About borrowing and payments system is centralized and quite strict. There is always a dual check for payments. Particularly for the overseas payment. The approval for payment is done from head office, there after it is checked at local level by GM and there after a cross verification through mail and telephonic talk the payment is released from the local bank account of company. It maintains transparency in system and removes chaos.

### **Related Party Disclosures**

The company discloses name of the ordering party with details and specifications required by purchaser. In fact in case of defense ship manufacturing a person compulsorily visits the unit. There is a continuous inspection of construction area and vessels as they mean a lot to the ordering party. And accompany never objects these inspections. Sometimes these inspections a random.

### **Accounting for Taxes on Income**

The tax payment is fully under the norms of Income Tax Act, 1961. Company never faced any allegation of tax evasion or tax manipulations. All the taxes are paid within the due time.

## **CONCLUSIONS**

Majorly there are 18 listed companies in India who are in shipping business (construction or repairing) with 1 % in total share in world shipping industry. The company has its customers around the world domestic as well as abroad. Modest follows norm of Indian ship industry in this regards and charge depreciation as per income tax act 1961 and Indian shipping act. Modest fully apply shipping act norms for the accounting of its fixed assets like building, machinery. Modest infrastructure Pvt. Ltd is a very ethical company. Company never faced any allegation of tax evasion or tax manipulations. Through checking of these parameters modest proves itself as an ideal company which is practicing almost all the norms of corporate governance. Modest has adopted a corporation property to maintain in Bhavnagar under its corporate social responsibility. Modest proves itself as an ideal company in all the aspects let it be patriotism, corporate social responsibility or practices of corporate governance

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